



Date: 5/17/2024

Virtual Meeting

RISK-BASED CAPITAL INVESTMENT RISK AND EVALUATION (E) WORKING GROUP

Wednesday, May 22, 2024

12:00 – 1:00 p.m. ET / 11:00 a.m. – 12:00 p.m. CT / 10:00 a.m. – 11:00 a.m. MT / 9:00 – 10:00 a.m. PT

ROLL CALL

RISK-BASED CAPITAL INVESTMENT RISK AND EVALUATION (E) WORKING GROUP

Philip Barlow, Chair	District of Columbia	William Leung/Debbie Doggett	Missouri
Thomas Reedy, Vice Chair	California	Lindsay Crawford	Nebraska
Wanchin Chou	Connecticut	Jennifer Li	New Hampshire
Ray Spudeck/Carolyn Morgan	Florida	Bob Kasinow/Bill Carmello	New York
Vincent Tsang	Illinois	Dale Bruggeman/Tom Botsko	Ohio
Roy Eft	Indiana	Rachel Hemphill	Texas
Carrie Mears/Kevin Clark	Iowa	Doug Stolte	Virginia
Fred Andersen	Minnesota	Steve Drutz/Tim Hays	Washington
		Amy Malm	Wisconsin

NAIC Support Staff: Dave Fleming/Julie Gann

AGENDA

1. Discuss Comment Letters Received on Memorandum—*Philip Barlow (DC)*
 - Memorandum Attachment 1
 - American Council of Life Insurers (ACLI) Attachment 2
 - Everlake Life Attachments 3 & 4

2. Discuss Any Other Matters Brought Before the Working Group
—*Philip Barlow (DC)*

3. Adjournment

MEMORANDUM

TO: Members, Interested Regulators and Interested Parties of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group

FROM: Philip Barlow, Chair of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group

DATE: April 16, 2024

RE: Consideration of Additional Information on Interim Factor for Residual Tranches

The Risk-Based Capital Investment Risk and Evaluation (E) Working Group will meet May 22, 2024, to consider additional feedback to be provided by those industry stakeholders requesting a 1-year delay. In order to be considered by the Working Group, this feedback needs to include and shall be limited to, a detailed plan describing:

- (1) Who is accepting responsibility for conducting the additional analysis. Note that this cannot require the dedication of American Academy of Actuaries' (Academy) resources which are already dedicated to long-term projects commissioned by the Working Group. If the responsible party also needs the cooperation of other sources, please confirm the willingness and ability of those parties to provide the necessary data/analysis in the timeframe identified.
- (2) A specific timeline of when deliverables will be provided, in order to allow adequate time for the Working Group to conduct its review. This should include touchpoints with the Chair of the Working Group regarding progress, with a final proposal to be provided no later than January 31, 2025.
- (3) Any analysis provided must be credibly aligned with the actual holdings of residuals by insurers and should be based on a Conditional Tail Expectation (CTE) risk measure approach.
- (4) While the Working Group presumes that a long-term factor will be based on attributes of holdings, likely resulting in multiple factors, an interim factor is anticipated to be singular in nature. If industry anticipates it will request multiple factors be used for an interim step, the structure and design of the interim proposal must be received by November 30, 2024, to ensure an adequate time to review before a structure change. Note that any proposal involving multiple factors must be supported by additional CTE-based risk measure analysis. As evidenced by the vote taken during the April 12, 2024, meeting, a majority of the working group does not believe a 1-year delay for the sole purpose of allowing multiple interim factors is warranted.

- (5) Acknowledgement that the Working Group will not reassess the interim factor if information is received after the agreed timelines. Any information provided after those dates may be considered in the context of ongoing work as a long-term factor.

**Mariana Gomez-Vock**

Senior Vice President, Prudential Policy & International
American Council of Life Insurers
Marianagomez-vock@acli.com

May 15, 2024

Mr. Philip Barlow, Chair
RBC Investment Risk & Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

[Via email: [dfleming@naic.org](mailto:d Fleming@naic.org)]

Re: Allocation of residual tranche holdings, by sector

Dear Mr. Barlow:

ACLI appreciates the opportunity to follow up on a request that emerged from discussions about the recent Oliver Wyman (OW) study. On the last Working Group call, several regulators discussed the study's findings on Bank Syndicated Loan (BSL) CLOs. Regulators noted that the current statutory reporting for residuals does not include sector-specific disclosure for Asset Backed Securities (ABS) residuals and asked ACLI to collect this data for YE 2023. ACLI developed a voluntary survey to gather information from our members on Asset Backed Securities (ABS) residual holdings.

Executive Summary of Findings:

- Our survey indicates that approximately **10.9% are BSL CLOs**.
- ACLI identified the top 32 holders of residuals who collectively held 95% of the aggregate amount of residuals ABS in the life industry. Of the 32 group holders, 27 were ACLI members. ACLI did not survey non-members.
- ACLI received data from 19 life insurance groups out of the 27 surveyed, which represented **54% or \$6.4 billion** of the total aggregated residuals in YE 2023.

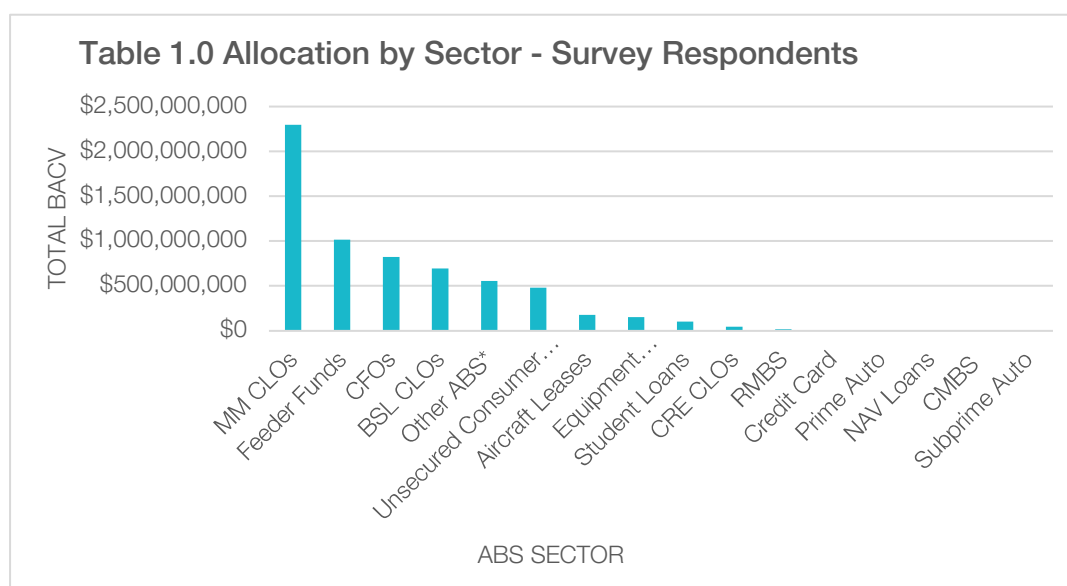
Additional information about the survey, its participants and findings are below.

American Council of Life Insurers | 101 Constitution Ave, NW, Suite 700 | Washington, DC 20001-2133

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 280 member companies represent 94 percent of industry assets in the United States.

About the survey

- Survey asked about allocations for 15 specific sectors / collateral type, there was also space to identify and report other categories of ABS. Respondents were asked to identify the “other” ABS sector.
- Respondents also submitted the definitions their company used for each sector, ACLI reviewed the definitions to ensure that each sector was homogeneous.
- Respondents were also asked to identify the underlying collateral for “feeder funds” and “CFOs.”
- ACLI calculated the percentage of asset allocation for the 19 groups reporting. Thus, the survey represents the percentages, based on book adjusted carrying value (BACV) for each sector, for the 19 groups.
- Each survey participant provided ACLI with a signed attestation regarding the completeness and accuracy of the data submitted.



Other ABS* = ACLI requested data on 14 different sectors. Companies could also enter sectors into an other category if the sector was not one of the 14 sectors ACLI asked about. In this category, members reported: Aircraft Loan ABS; Commercial Loans; Equity – other, Infrastructure Debt, Powerplant, Prime Borrower Unsecured Consumer; Prime Home Improvement Loans; Solar, Utility Scale Solar.

Sample Representativeness

- ACLI first identified the top 32 holders of residual tranches. These 32 life insurance groups held 95% of the total residual tranches reported in YE 2023 (\$11.5 billion).
- ACLI excluded non-members and surveyed the remaining 27 insurance groups.
- ACLI received data from **19** life insurance groups.
- The 19 responses represents **54%** or **\$6.4 billion** of the total aggregated residuals reported in YE 2023.

Table 2.0 Allocation by Dollar Amount, Sector, Percentages – survey responses

SECTOR	BACV	PERCENTAGE
MM CLOS	\$ 2,294,231,501	36.1%
FEEDER FUNDS[†]	\$ 1,014,183,088	16%
CFOS[‡]	\$ 822,598,092	13%
BSL CLOS	\$ 694,225,569	10.9%
OTHER ABS*	\$ 554,251,226	8.7%
UNSECURED CONSUMER LOANS	\$ 480,105,560	7.6%
AIRCRAFT LEASES	\$ 175,105,871	2.8%
EQUIPMENT LENDING/LEASES	\$ 151,683,102	2.4%
STUDENT LOANS	\$ 101,539,282	1.6%
CRE CLOS	\$ 43,187,227	0.7%
RMBS	\$ 14,015,686	0.2%
CREDIT CARD	\$ 4,930,996	0.1%
PRIME AUTO	\$ 897,163	0%
NAV LOANS	\$ 189,521	0%
CMBS - -		
SUBPRIME AUTO ABS - -		
TOTAL	\$ 6,351,143,883	100%

[†]**Feeder Funds (underlying collateral):** commercial real estate credit; equity investments, including LP stakes in PE funds; middle market credit; other leveraged credit; other loans and fixed income like assets; real estate equity.

[‡]**CFOs (underlying collateral):** equity investments, including LP stakes in PE funds; middle market credit.

* **Other ABS*** = ACLI requested data on 14 different sectors. Companies could also enter sectors into an other category if the sector was not one of the 14 sectors ACLI asked about. In this category, members reported: Aircraft Loan ABS; Commercial Loans; Equity – other, Infrastructure Debt, Powerplant, Prime Borrower Unsecured Consumer; Prime Home Improvement Loans; Solar, Utility Scale Solar.

Summary of ACLI Survey Findings

Top Five ABS sectors reported to ACLI

- MM CLOs - **36.1%** (\$2.3 billion)
- Feeder Funds - **16%** (\$1 billion)
- CFOs – **13%** (\$822 million)
- BSL CLOs - **10.9%** (\$694 million)
- Other ABS¹ – **8.7%** (\$554 million)

¹ ACLI requested data on 14 different sectors. Companies could also enter sectors into an “Other” category if the sector was not listed. In this category, members reported: Aircraft Loan ABS; Commercial Loans; Equity – other, Infrastructure Debt; Powerplant; Prime Borrower Unsecured Borrower; Prime Home Improvement Loans; Solar; Utility Scale Solar.³ The Oliver Wyman reported discussed BSL CLOs, MM CLOs, Prime Auto and Subprime Auto, Student Loan ABS.

Comparing actual holdings with the sectors analyzed in the OW Report²

- Subprime Auto – **0%** (\$0)
- Prime Auto – **0.00014%** (\$897,163)
- Student Loan ABS – **1.6%** (\$101.5 million)
- BSL CLOs – **10.9%** (\$694 million)
- MM CLOs – **36.1%** (\$2.3 billion)

Note about the asset classes/sectors selected by OW to review:

- OW's selected its subclasses based on the four largest sectors of outstanding ABS deals in the U.S., by volume.
- The data was not specific to insurers or life insurers, who have different investment needs than other institutional investors.
- ACLI's data demonstrates that insurers' holdings of residuals do not align with the total market share of all outstanding ABS deals in the U.S.

Thank you for the opportunity to provide this data. We hope that it is useful as the Working Group continues its work on RBC factors for structured securities.

Sincerely,



Mariana Gomez-Vock
Senior Vice President, Prudential Issues & International

Table 1 (5-15-2024 Update)

Aggregate Totals for Residual Tranches Survey Responses

SECTOR	Book/Adjusted Carrying Value	percent distribution of BACV
MM CLOs	\$2,294,231,501	36.1
Feeder Funds	1,014,183,088	16.0
CFOs	822,598,092	13.0
BSL CLOs	694,225,569	10.9
Other ABS ¹	554,251,226	8.7
Unsecured Consumer Loans ABS	480,105,560	7.6
Aircraft Leases ABS	175,105,871	2.8
Equipment Lending/Leases ABS	151,683,102	2.4
Student Loans ABS	101,539,282	1.6
CRE CLOs	43,187,227	0.7
RMBS	14,015,686	0.2
Credit Card ABS	4,930,996	0.1
Prime Auto ABS	897,163	0.0
NAV Loans	189,521	0.0
CMBS	-	-
Subprime Auto ABS	-	-
TOTAL	6,351,143,883	100.0

¹ Includes: Aircraft Loan ABS, Commercial Loans, Equity - other, Infrastructure Debt, Powerplant, Prime Borrower Unsecured Consumer, Prime Home Improvement Loans, Solar, Utility Scale Solar.

Source: ACLI tabulations of Residual Tranches survey of 2023 year-end data.

Appendix, cont.

Table 2 (5-15-2024 Update)

Percent Distribution of Responses for Book/Adjusted Carrying Value

Holdings, By Sector

Groups with Residual Holdings of \$230 million and Above (9 Groups)	Percent distribution of BACV	Groups with Residual Holdings Below \$230 million (10 Groups)	Percent distribution of BACV
SECTOR		SECTOR	
MM CLOs	41.6	Feeder Funds	38.2
CFOs	14.9	BSL CLOs	33.4
Feeder Funds	10.9	MM CLOs	12.1
Other ABS ¹	9.5	Other ABS ¹	5.2
Unsecured Consumer Loans ABS	8.7	CFOs	4.3
BSL CLOs	5.8	Aircraft Leases ABS	3.0
Equipment Lending/Leases ABS	2.9	Unsecured Consumer Loans ABS	2.8
Aircraft Leases ABS	2.7	RMBS	0.9
Student Loans ABS	2.0	CRE CLOs	-
CRE CLOs	0.8	NAV Loans	-
Credit Card ABS	0.1	CMBS	-
RMBS	0.1	Credit Card ABS	-
Prime Auto ABS	0.0	Prime Auto ABS	-
NAV Loans	0.0	Subprime Auto ABS	-
CMBS	-	Student Loans ABS	-
Subprime Auto ABS	-	Equipment Lending/Leases ABS	-
TOTAL	100.0	TOTAL	100.0

¹ Includes: Aircraft Loan ABS, Commercial Loans, Equity - other, Infrastructure Debt, Powerplant, Prime Borrower Unsecured Consumer, Prime Home Improvement Loans, Solar, Utility Scale Solar.

Source: ACLI tabulations of Residual Tranches survey of 2023 year-end data.

May 15, 2024

VIA Email

Philip Barlow, Chair of the Risk-Based Capital Investment Risk and Evaluation Working Group and Associate Commissioner for Insurance, District of Columbia
 Department of Insurance, Securities and Banking
 National Association of Insurance Commissioners
 1100 Walnut Street, Suite 1000
 Kansas City, MO 64101-2100

Everlake Life Insurance Company
 3100 Sanders Road, Suite 303
 Northbrook, IL 60062
 847.555.3330

everlake.com

RE: Consideration of Additional Information on Interim Factor for Residual Tranches

Dear Mr. Barlow:

Thank you for the work that you and the Risk-Based Capital Investment Risk and Evaluation Working Group (“Working Group”) have done on this important matter. This letter is in response to your memo dated April 11, 2024. That memo was issued in response to the April 12, 2024 meeting of the Working Group, during which a one-year delay in implementation of the interim RBC factor for all residual tranches was considered. Upon further consideration of the matter, including the stated concerns of the regulatory community to take swift action to address the concerns about the residual tranches of collateralized loan obligations (“CLOs”), and taking into account the available data, we suggest an alternative path forward.

Executive Summary

We propose that the Working Group apply a 45% interim RBC charge to residual tranches of all structured securities EXCEPT those listed below that are (1) demonstrated as high-performing based on data and analysis, and (2) supported by data that demonstrates the performance in a tail scenario warrants a 30% charge “Exempted Residual Tranches and Interests.” Exempted Residual Tranches and Interests would be subject to a 30% RBC charge during this interim period until the long-term ABS RBC project is completed. This proposal could be implemented on an interim basis, starting at the end of 2024 and would involve a change to the RBC instructions and not the RBC plan.



To implement this proposal, the Working Group could change the RBC instructions clarifying that residual tranches of structured securities (other than Exempted Residual Tranches and Interests) would be reported on line 51 while Exempted Residual Tranches and Interests would be reported on line 4.2.

We have suggested specific language that could be included in the NAIC RBC Proposal Form in Appendix 1.

Background

Concerns About Performance of Residual Tranches

The interim 45% charge originated in 2021 due to concerns raised by the SVO and NAIC staff regarding residual tranches and the potential for regulatory capital arbitrage. The issue was discussed in the Valuation of Securities ETask Force before being referred to the Working Group.¹ Specific concerns about tail risk and other issues have been raised by the Working Group² and stakeholders regarding certain types of residuals, most notably Broadly Syndicated Loan (“BSL”) CLO equity as well as other fund structures such as feeder funds backed by equity linked instruments and collateralized fund obligations (“CFO”)³

Data Is Being Collected and Shared with the Regulatory Community

We understand that the Working Group will receive data from the ACLI showing the residual tranche holdings, broken down by sector or type of collateral by a number of life insurance companies. Everlake Life participated in this survey.

This data collected by the ACLI will be helpful to demonstrate to the Working Group that the majority of the residuals owned by respondents to the ACLI survey are not BSL CLO equity or CFOs / feeder funds backed by equity linked instruments. Instead, they are largely backed by structures that are more resilient due to higher levels of enhancement and / or collateral that is more fixed income like in nature such as loans and leased cashflow streams.

¹ VOSTF adopted an amendment to the Purposes and Procedures Manual of the NAIC Investment Analysis Office to remove residual tranches from receiving an NAIC Designation. VOSTF December 12, 2021, meeting minutes

² Working Group Meeting Minutes (February 28, 2022) (9-454 NAIC Proceedings – Spring 2022), at 2. In discussing the background of residual project for Working Group Members, Ms. Mears (IA) recognized the complexity of the issue, noting that initial risk assessment “may also be easier for residuals of collateralized loan obligation (CLO), which have underlying collateral that is rated and may be more difficult for other structures that have underlying collateral that is not rated or does not fit within the existing RBC framework.”

³ Joint Working Group and Financial Condition (E) Committee Meeting Minutes (January 12, 2022). Commissioner White supported a request “to solicit if members of the industry, and perhaps consultants that follow the NAIC work, have views on possible methodologies that could achieve the objective of capturing the tail risk on CLOs.” See also, regulator comments on March 4, 2024, Working Group meeting suggesting that the Oliver Wyman Study supports a 45% for BSL CLOs. See also recent observations from interested parties in written comments for April 12, 2024, Working Group meeting suggesting that BSL CLOs make up approximately 80% of insurance holdings of ABS.



Changes to RBC Must Be Data Driven

The Working Group began this project with the goal of focusing “on setting RBC charges that correlate with the risks insurers are undertaking and ensure that the risk the RBC is addressing is commonly understood.”⁴ As this Working Group has acknowledged, the increased charge was introduced based on limited data.⁵ The most substantive data presented to the Working Group to date regarding ABS residuals was the March 2024 Oliver Wyman study.⁶ That study provided detailed data modeling performance of residuals under significant historical stress scenarios – the dotcom bubble and the Great Financial Crisis. The importance of modeling those two events in assessing asset risk was acknowledged by the SVO, which initial report noted “historical performance of CLOs has been excellent weathering three economic downturns – dotcom bubble, GFC and COVID.”⁷

To date the Oliver Wyman study is the most and only comprehensive data that has been produced by any party on this issue.

The Oliver Wyman study utilized a methodology that will be vital in addressing the open RBC factor the Working Group is addressing. The foundation of this methodology is described in Appendix 2 (the “Residual Performance Assessment Methodology”). We respectfully request that the Working Group adopt the Residual Performance Assessment Methodology to evaluate assets other than those listed below for inclusion as an Exempted Residual Tranche or Interest during this interim evaluation period. The process we outline would facilitate such additions during the period between now and a final charge being adopted via the Academy workflow.

The Oliver Wyman study demonstrated far superior performance of prime auto ABS, subprime auto ABS, middle market CLOs and student loan ABS, as compared, for example, to common stock equity and BSL CLO equity.⁸ These types of structured securities along with similar ABS form the basis for defining the population of Exempted Residual Tranches and Interests.

In light of the above, we propose the RBC instruction changes, as described below, to address regulator concerns through an interim capital charge based on this initial analysis for certain residual tranches, with an understanding that these charges will be adjusted through the RBC IRE WG project led by the Academy, informed by the Oliver Wyman Study and the Residual Performance Assessment Methodology. For the interim period, we recommend the Working Group deem the following ABS investments as “Exempted Residual Tranches and Interests”.

⁴ Working Group Meeting Minutes (February 28, 2022) (9-454 NAIC Proceedings – Spring 2022), at 2.

⁵ Draft: 8/9/23 Risk-Based Capital (RBC) Investment Risk and Evaluation (E) Working Group Virtual Meeting June 14, 2023

⁶ <https://content.naic.org/sites/default/files/inline-files/Oliver%20Wyman%20Residual%20Tranche%20Report.pdf>

⁷ https://content.naic.org/sites/default/files/national_meeting/VOSTF%20Materials%208.11.2022%20v7.pdf (page 155).

⁸ The types of ABS chosen in the Oliver Wyman study represent nearly 50% of the ABS market.



“Exempted Residual Tranches and Interests” are

- Middle market and commercial real estate CLO residuals whether in feeder fund format or CLO
- CMBS and RMBS residuals
- Residuals secured by
 - Consumer assets including but not limited to consumer loans, credit card receivables, student loans, auto loans and leases, solar loans and leases, home improvement loans and other prime consumer assets
 - Cashflows from leases secured by, but not limited, to data centers, fiber and wireless infrastructure, renewable energy projects backed by power purchase agreements, and loans and leases secured by physical assets, solar and other energy related projects backed by power purchase agreements, transportation assets such as railcars, containers and aircraft and engines, equipment, commercial and residential real estate
 - Other loans and fixed income like cashflows including but not limited to residential and commercial PACE assets, insurance policy payments, commercial and industrial solar contracts, whole business securitizations, timeshares, royalties, intellectual property, tax liens, small business loans inventory finance, supply chain finance and accounts receivable finance and
- any other category of residual tranche or interest or specific residual investment identified by a domiciliary regulator as appropriately receiving a 30 percent charge under the RBC calculations of insurers domiciled in that state. Such review will be based on the characteristics specific to the asset or analysis of the asset class under any methodology deemed appropriate by the domiciliary regulator.

Collaborative Process Moving Forward

We understand the regulatory community’s need for data-driven, consumer-protective decision making and are prepared to collaborate with the regulatory community broadly and our domestic regulators specifically as well as our industry colleagues. Everlake Life is willing to continue to engage to move this project forward in a data-driven, consumer-protective manner.

Working Group Procedural Matters

We request this proposal be adopted by the Working Group no later than June 30 of this year, and adoption by the Capital Adequacy Task Force (CATF) by July 30 of this year, per existing AIC procedures, or through a one-time amendment to the Capital Adequacy Task Force’s Procedures for Proposed Amendments to the Risk-Based Capital Plans and Instructions timing requirements for an instruction change, which would allow the proposal to be effective for year-end 2024.



Private credit backed feeder fund residuals may be included based on the nature of collateral which would be determined based on full look through to the final collateral.

Everlake Life is submitting this proposal in an effort to directly address regulator concerns regarding CLO residual tranches. We are making every effort to be responsive and utilize the best and most up to date data with a solution that will allow regulators to implement their interim solution for year end 2024 and focus on data-driven analysis as part of a permanent solution moving forward.

We appreciate your efforts and consideration of this request.

Very truly yours,

/s/ Patrick C Reeder

Patrick C Reeder
Chief Government Affairs Officer

cc-Dave Fleming, Senior Life RBC Analyst, AIC



Appendix 1 – Language for RBC Proposal Form

Description/Justification for Changes

The proposed change would add instructions for lines 51 and 4.2 in the life RBC formula clarifying that for reporting year 2024, residual tranches of structured securities other than Exempted Residual Tranches and Interests should be reported under line 51 while the residual tranches for Exempted Residual Tranches and Interests should be reported under line 4.2. The proposal includes a footnote to line 51 stating ‘Include residual tranches of structured securities other than Exempted Residual Tranches and Interests per the instructions,’ and a footnote to line 4.2 stating ‘Include residual tranches for Exempted Residual Tranches and Interests per the instructions.’

Under this proposal, Line 51 has a 45% charge that would apply to the residual tranches of structured securities other than Exempted Residual Tranches and Interests to be listed on that line. AVR Equity Component, for Exempted Residual Tranches and Interests, would be reported on existing line 4.2. Line 4.2 was added new lines for year-end 2022 reporting to Schedule BA and the AVR Equity Component to capture amounts related to residual tranches or interest. For year-end 2022 life RBC reporting, AVR Equity Component, Column 1, Line 3 was included in Line 4.2.

Amendment Language

Amendment to “Other Long-Term Assets” (page 25 of Instructions)

Specific instruction for Line 51: Parties should report the residual tranches of structured securities other than Exempted Residual Tranches and Interests on Line 51. Parties should add a footnote to indicate if their overall RBC changes by 10 percent or more from their 2023 RBC based on this reporting change. Exempted Residual Tranches and Interests” are:

- Middle market and commercial real estate CLO residuals whether in feeder fund format or CLO
- CMBS and RMBS residuals
- Residuals backed by
 - Consumer Assets including but not limited to consumer loans, credit card receivables, student loans, auto loans and leases, solar loans and leases, home improvement loans and other prime consumer assets
 - Cashflows from leases secured by, but not limited, to data centers, fiber and wireless infrastructure, renewable energy projects backed by power purchase agreements, and loans and leases secured by physical assets, solar and other energy related projects backed by power purchase agreements, transportation assets such as railcars, containers and aircraft and engines, equipment, commercial and residential real estate



- Other loans and fixed income like cashflows including but not limited to residential and commercial PACE assets, insurance policy payments, commercial and industrial solar contracts, whole business securitizations, timeshares, royalties, intellectual property, tax liens, small business loans inventory finance, supply chain finance, and accounts receivable finance and
- and any other category of residual tranche or interest or specific residual investment identified by a domiciliary regulator as appropriately receiving a 30 percent charge demonstrated using a methodology acceptable to the domiciliary regulator.

Amendment to “Other Long-Term Assets” (page 25 of Instructions)

Line 4.2 For year end 2024 Life RBC reporting, AVR Equity Component, Column 1, line 3 will be included in line 4.2 except for broadly syndicated loan collateralized loan obligation residual tranche investments which are to be captured in line 51



APPENDIX 2

Residual Performance Assessment Methodology [Fundamental Steps / High Level Concepts]

1. A random sampling of \square S deals large enough to represent a statistically representative sample of the asset class at issue (the “Target Asset”) would be selected.
2. Analyst would conduct a comparison of the sample in \square 1 above to average characteristics and deals, editing the sample with new random selection of deals where initial selection produces outliers that would inappropriately skew the sample set.
3. The relative risk of the sample of ABS residuals would be measured utilizing a scenario-based approach, utilizing a simulated base and three stress scenarios (a base scenario and two “mid-tail” stress scenarios based on the 2008 Financial Crisis and the “Dot Com” bubble of 1995-2000 collectively, the “Stress Scenarios”) as well as a “deep-tail” scenario. The analyst would apply the Stress Scenarios to the underlying collateral of the assets with calculation of potential default and underperformance rates. The analyst would also consider a “deep tail” scenario modeled after a 1 in 100 excess defaults event, i.e., the Great Depression, and intended to reflect a roughly \square percentile severity.
4. The analyst would utilize assumptions regarding each asset class that reflect the characteristics of that asset class as observed in available historical periods (e.g., active management of loans, prepayment and discount purchases as have occurred historically in downturns).
5. Any insurer seeking to apply the Performance Assessment Methodology to any Target Asset would be required to have the analysis certified by \square A Date Certain \square .



Capital Adequacy (E) Task Force

RBC Proposal Form

- | | | |
|---|--|--|
| <input type="checkbox"/> Capital Adequacy (E) Task Force | <input type="checkbox"/> Health RBC (E) Working Group | <input type="checkbox"/> Life RBC (E) Working Group |
| <input type="checkbox"/> Catastrophe Risk (E) Subgroup | <input type="checkbox"/> P/C RBC (E) Working Group | <input type="checkbox"/> Longevity Risk (A/E) Subgroup |
| <input type="checkbox"/> Variable Annuities Capital. & Reserve (E/A) Subgroup | <input type="checkbox"/> Economic Scenarios (E/A) Subgroup | <input checked="" type="checkbox"/> RBC Investment Risk & Evaluation (E) Working Group |

<p style="text-align: right;">DATE: <u>5/17/24</u></p> <p>CONTACT PERSON: _____</p> <p>TELEPHONE: _____</p> <p>EMAIL ADDRESS: _____</p> <p>ON BEHALF OF: _____</p> <p>NAME: <u>Patrick Reeder</u></p> <p>TITLE: <u>Chief Governmental Affairs Officer</u></p> <p>AFFILIATION: <u>EverLake Life Insurance Comany</u></p> <p>ADDRESS: _____</p>	<p style="text-align: center;">FOR NAIC USE ONLY</p> <hr/> <p>Agenda Item # <u>2024-19-I</u></p> <p>Year <u>2024</u></p> <hr/> <p style="text-align: center;">DISPOSITION</p> <p>ADOPTED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>EXPOSED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>REJECTED:</p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER:</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p>
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IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

- | | | |
|--|---|---|
| <input type="checkbox"/> Health RBC Blanks | <input type="checkbox"/> Property/Casualty RBC Blanks | <input checked="" type="checkbox"/> Life and Fraternal RBC Blanks |
| <input type="checkbox"/> Health RBC Instructions | <input type="checkbox"/> Property/Casualty RBC Instructions | <input checked="" type="checkbox"/> Life and Fraternal RBC Instructions |
| <input type="checkbox"/> Health RBC Formula | <input type="checkbox"/> Property/Casualty RBC Formula | <input checked="" type="checkbox"/> Life and Fraternal RBC Formula |
| <input type="checkbox"/> OTHER _____ | | |

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

This proposal provides for the inclusion of residual tranches or interests reported on Schedule BA to be included in LR008 Other Long-Term Assets on two lines. It applies a 45% factor to all residual tranches and interests except those specifically identified as Exempted.

Additional Staff Comments:

**** This section must be completed on all forms.**

Revised 2-2023

OTHER LONG-TERM ASSETS

LR008

Basis of Factors

Recognizing the diverse nature of Schedule BA assets, the RBC is calculated by assigning different risk factors according to the different type of assets. Assets with underlying characteristics of bonds and preferred stocks designated by the NAIC Capital Markets and Investment Analysis Office have different factors according to the NAIC assigned classification. Unrated fixed-income securities will be treated the same as Other Schedule BA Assets and assessed a 30 percent pre-tax charge. Rated surplus and capital notes have the same factors applied as Schedule BA assets with the characteristics of preferred stock. Where it is not possible to determine the RBC classification of an asset, a 30 percent pre-tax factor is applied.

Specific Instructions for Application of the Formula

Line (49.1)

Schedule BA affiliated common stock – all others should be included in C-1cs. Specifically this means that all subs with an affiliate code 13 in the current life-based framework and “holding company in excess of indirect subsidiaries” or subsidiaries with affiliate code 7 are to be included in C-1cs.

Line (49.2)

New lines were added for yearend 2022 reporting to Schedule BA and the AVR Equity Component to capture amounts related to residual tranches or interest. For yearend 2022 life RBC reporting, AVR Equity Component, Column 1, Line 93 will be included in Line (49.2). For year end 2024, Life RBC reporting, AVR Equity Component, Column 1, line 93 will be included in line (49.2) for only Exempted Residuals Tranches and Interests as described below. All other residuals tranches and interests will be captured in line (51).

Line (51)

For year end 2024 Life RBC reporting, reporting entities should report residual tranches (other than Exempted Residual Tranches and Interests) on Line 51. Reporting entities should add a footnote to indicate if their overall RBC changes by 10 percent or more from their 2023 RBC based on this reporting change.

Exempted Residual Tranches and Interests” are:

- Middle market and commercial real estate CLO residuals whether in feeder fund format or CLO;
- CMBS and RMBS residuals;
- Residuals backed by:
 - o Consumer Assets including but not limited to consumer loans, credit card receivables, student loans, auto loans and leases, solar loans and leases, home improvement loans and other prime consumer assets;
 - o Cashflows from leases secured by, but not limited, to data centers, fiber and wireless infrastructure, renewable energy projects backed by power purchase agreements, and loans and leases secured by physical assets, solar and other energy related projects backed by power purchase agreements, transportation assets such as railcars, containers and aircraft and engines, equipment, commercial and residential real estate;
 - o Other loans and fixed income like cashflows including but not limited to residential and commercial PACE assets, insurance policy payments, commercial & industrial solar contracts, whole business securitizations, timeshares, royalties, intellectual property, tax liens, small business loans inventory finance, supply chain finance and accounts receivable finance; and
- and any other category of residual tranche or interest or specific residual investment identified by a domiciliary regulator as appropriately receiving a 30 percent charge demonstrated using a methodology acceptable to the domiciliary regulator.

Line (57)

Total Schedule BA assets [LR008 Other Long-Term Assets Column (1) Line (57) plus LR007 Real Estate Column (1) Line (14) plus Lines (17) through Line (21) plus LR009 Schedule BA Mortgages Column (1) Line (21)] should equal the total Schedule BA assets reported in the Annual Statement Page 2, Column 3, Line 8.

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OTHER LONG-TERM ASSETS (CONTINUED)

	Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †	(4) Factor	(5) RBC Requirement
<u>Schedule BA - All Other</u>						
(48.1) BA Affiliated Common Stock - Life with AVR	AVR Equity Component Column 1 Line 67	_____				
(48.2) BA Affiliated Common Stock - Certain Other	AVR Equity Component Column 1 Line 68	_____				
(48.3) Total Schedule BA Affiliated Common Stock - C-1o	Line (48.1) + (48.2)	_____				
(49.1) BA Affiliated Common Stock - All Other	AVR Equity Component Column 1 Line 69	_____			X 0.3000	= _____
(49.2) Total Sch. BA Affiliated Common Stock - C-1es and Exempted Residual Tranches or Interests as described in the instructions.	Line (49.1) + AVR Equity Component Column 1 Line 93, in part	_____			X 0.3000	= _____
(50) Schedule BA Collateral Loans	Schedule BA Part 1 Column 12 Line 29999999 + Line 30999999	_____			X 0.0680	= _____
(51) Total Residual Tranches or Interests - Other	AVR Equity Component Column 1 Line 93, in part	_____			X 0.4500	= _____
(52.1) NAIC 01 Working Capital Finance Notes	AVR Equity Component Column 1 Line 94	_____			X 0.0050	= _____
(52.2) NAIC 02 Working Capital Finance Notes	AVR Equity Component Column 1 Line 95	_____			X 0.0163	= _____
(52.3) Total Admitted Working Capital Finance Notes	Line (52.1) + (52.2)	_____				
(53.1) Other Schedule BA Assets	AVR Equity Component Column 1 Line 96	_____				
(53.2) Less NAIC 2 thru 6 Rated/Designated Surplus Notes and Capital Notes	Column (1) Lines (23) through (27) + Column (1) Lines (33) through (37)	_____				
(53.3) Net Other Schedule BA Assets	Line (53.1) less (53.2)	_____			X 0.3000	= _____
(54) Total Schedule BA Assets C-1o (pre-MODCO/Funds Withheld)	Lines (11) + (21) + (31) + (41) + (48.3) + (50)+ (52.3) + (53.3)	=====				
(55) Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					_____
(56) Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					_____
(57) Total Schedule BA Assets C-1o (including MODCO/Funds Withheld.)	Lines (54) - (55) + (56)	=====				=====
(58) Total Schedule BA Assets Excluding Mortgages and Real Estate	Line (47) + (49.2) + (51) + (57)	=====				=====

† Fixed income instruments and surplus notes designated by the NAIC Capital Markets and Investment Analysis Office or considered exempt from filing as specified in the Purposes and Procedures Manual of the NAIC Investment Analysis Office should be reported in Column (3).

‡ Column (2) is calculated as Column (1) less Column (3) for Lines (1) through (17). Column (2) equals Column (3) - Column (1) for Line (53.3).

§ The factor for Schedule BA publicly traded common stock should equal 30 percent adjusted up or down by the weighted average beta for the Schedule BA publicly traded common stock portfolio subject to a minimum of 22.5 percent and a maximum of 45 percent in the same manner that the similar 15.8 percent factor for Schedule BA publicly traded common stock in the Asset Valuation Reserve (AVR) calculation is adjusted up or down. The rules for calculating the beta adjustment are set forth in the AVR section of the annual statement instructions.

Did the reporting entity experience a 10% or more change from their 2023 ACL RBC based on the 2024 RBC changes. Yes [] No []

Denotes items that must be manually entered on the filing software.

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CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL

	<u>Source</u>	(1) RBC <u>Requirement</u>
<u>Insurance Affiliates and Misc. Other Amounts (C-0)</u>		
(1) Directly Owned Health Insurance Companies or Health Entities	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (1)	_____
(2) Directly Owned Property and Casualty Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (2)	_____
(3) Directly Owned Life Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (3)	_____
(4) Indirectly Owned Health Insurance Companies or Health Entities	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (4)	_____
(5) Indirectly Owned Property and Casualty Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (5)	_____
(6) Indirectly Owned Life Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (6)	_____
(7) Affiliated Alien Insurers - Directly Owned	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (9) + (10) + (11)	_____
(8) Affiliated Alien Insurers - Indirectly Owned	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (12) + (13) + (14)	_____
(9) Off-Balance Sheet and Other Items	LR017 Off-Balance Sheet and Other Items Column (5) Line (34)	_____
(10) Total (C-0) - Pre-Tax	Sum of Lines (1) through (9)	_____
(11) (C-0) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (122)	_____
(12) Net (C-0) - Post-Tax	Line (10) - Line (11)	=====
 <u>Asset Risk – Unaffiliated Common Stock and Affiliated Non-Insurance Stock (C-1cs)</u>		
(13) Schedule D Unaffiliated Common Stock	LR005 Unaffiliated Common Stock Column (5) Line (21) + LR018 Off-Balance Sheet Collateral Column (3) Line (16)	_____
(14) Schedule BA Unaffiliated Common Stock	LR008 Other Long-Term Assets Column (5) line (47)	_____
(15) Schedule BA Affiliated Common Stock - C-1cs and Residual Tranches or Interests	LR008 Other Long-Term Assets Column (5) lines (49.2) + (51)	_____
(16) Common Stock Concentration Factor	LR011 Common Stock Concentration Factor Column (6) Line (6)	_____
(17) Holding Company in Excess of Indirect Subs	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (7)	_____
(18) Affiliated Non-Insurers	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (19) + (20) + (21)	_____
(19) Total (C-1cs) - Pre-Tax	Sum of Lines (13) through (18)	_____
(20) (C-1cs) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (134)	_____
(21) Net (C-1cs) - Post-Tax	Line (19) - Line (20)	=====
 <u>Asset Risk - All Other (C-1o)</u>		
(22) Bonds after Size Factor	LR002 Bonds Column (2) Line (27) + LR018 Off-Balance Sheet Collateral Column (3) Line (8)	_____
(23) Mortgages (including past due and unpaid taxes)	LR004 Mortgages Column (6) Line (31)	_____
(24) Unaffiliated Preferred Stock	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (10) + LR018 Off-Balance Sheet Collateral Column (3) Line (15)	_____
(25) Investment Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (8)	_____
(26) Investment in Upstream Affiliate (Parent)	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (15)	_____
(27) Directly Owned Health Insurance Companies or Health Entities Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (16)	_____
(28) Directly Owned Property and Casualty Insurance Companies Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (17)	_____
(29) Directly Owned Life Insurance Companies Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (18)	_____
(30) Publicly Traded Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (22)	_____
(31) Separate Accounts with Guarantees	LR006 Separate Accounts Column (3) Line (7)	_____

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SENSITIVITY TESTS - AUTHORIZED CONTROL LEVEL

Sensitivity Tests Affecting Authorized Control Level <u>Risk-Based Capital</u>	Source	(1)	(2)	(3)	(4)
		<u>Statement Value</u>	Additional Sensitivity Factor	<u>Additional RBC</u>	Authorized Control Level <u>Before Test</u>
(1.1) Other Affiliates: Company	LR042 Summary for Affiliated Investments Column (1) Lines (19), (20) and (21)	_____	0.700	_____	_____
(1.2) Other Affiliates: Subsidiaries	LR038 Additional Information Required Column (1) Line (1.2)	_____	0.700	_____	_____
(1.99) Total Other Affiliates		_____	0.700	_____	_____
(2.1) Noncontrolled Assets - Company	LR017 Off-Balance Sheet and Other Items Column (1) Line (15)	_____	0.020	_____	_____
(2.2) Noncontrolled Assets - Subsidiaries	LR038 Additional Information Required Column (1) Line (2.2)	_____	0.020	_____	_____
(2.99) Total Noncontrolled Assets		_____	0.020	_____	_____
(3.1) Guarantees for Affiliates: Company	LR017 Off-Balance Sheet and Other Items Column (1) Line (24)	_____	0.020	_____	_____
(3.2) Guarantees for Affiliates: Subsidiaries	LR038 Additional Information Required Column (1) Line (3.2)	_____	0.020	_____	_____
(3.99) Total Guarantees for Affiliates		_____	0.020	_____	_____
(4.1) Contingent Liabilities: Company	LR017 Off-Balance Sheet and Other Items Column (1) Line (25)	_____	0.020	_____	_____
(4.2) Contingent Liabilities: Subsidiaries	LR038 Additional Information Required Column (1) Line (4.2)	_____	0.020	_____	_____
(4.99) Total Contingent Liabilities		_____	0.020	_____	_____
(5.1) Long-Term Leases: Company	LR017 Off-Balance Sheet and Other Items Column (1) Line (26)	_____	0.030	_____	_____
(5.2) Long-Term Leases: Subsidiaries	LR038 Additional Information Required Column (1) Line (5.2)	_____	0.030	_____	_____
(5.99) Total Long-Term Leases		_____	0.030	_____	_____
(7.1) Affiliated Investments†: Company	LR038 Additional Information Required Column (1) Line (7.14)	_____	0.100	_____	_____
(7.2) Affiliated Investments†: Subsidiaries	LR038 Additional Information Required Column (1) Line (7.2)	_____	0.100	_____	_____
(7.99) Total Affiliated Investments		_____	0.100	_____	_____
(8.1) Total Residual Tranches or Interests Receiving a 30% Base Factor	LR008 Other Long-Term Assets Column (1) Line (49.2), in part	_____	0.150	_____	_____

† Excluding affiliated preferred and common stock

Denotes items that must be manually entered on the filing software.

#REF!